

Message Text

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ACTION NEA-09

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TAGS: EINV, CE

SUBJ: PFIZER SRI LANKA/GSL DISPUTE

REF: COLOMBO 322

1. SUMMARY: RECENT VISIT BY SENIOR PFIZER REGIONAL EXECUTIVE HAS PROVIDED QUICK FOLLOW-UP TO SITUATION DESCRIBED IN REFTEL. WITH AMBASSADOR AND EMBASSY STAFF, PFIZER EXECUTIVES HAVE REVIEWED ENTIRE ISSUE IN DETAIL AND WORKED OUT TENTATIVE COURSE OF ACTION. PFIZER IS WILLING TO MAKE CONCESSIONS WHICH MAY LEAD TO REASONABLE UNDERSTANDING WITH GSL, AT LEAST FOR NEXT 6 TO 12 MONTHS. END SUMMARY.

2. IN RAPID AND USEFUL FOLLOW-UP TO PFIZER PROBLEM DESCRIBED REFTEL, ROBERT NEIMETH (PRESIDENT, PFIZER, AIA) VISITED SRI LANKA FEBRUARY 13 TO 18. ALONG WITH LOCAL MANAGER ROGER BEHRENSHAUSEN, HE MET AT LENGTH WITH AMBASSADOR AND EMBASSY ECONOMIC-COMMERCIAL OFFICER.

3. IN FINAL MEETING WITH AMBASSADOR FEBRUARY 18,
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NEIMETH REVIEWED AND CLARIFIED PFIZER'S VIEW OF

MAIN PROBLEMS AT ISSUE WITH STATE PHARMACEUTICAL CORPORATION (SPC). THESE DIFFERENCES EMERGED AS RESULT MEETING SUBSEQUENT TO REFTTEL BETWEEN BEHRENHAUSEN AND SPC KHAIRMAN BIBILE. ACCORDING BEHRENHAUSEN FOUR BASIC AREAS OF DIFFERENCE WERE AS FOLLOWS: FIRST, SPC ALLEGATION OF PFIZER NON-COOPERATION WITH "THIRTY-FOUR-DRUG PROGRAM" IN WHICH SPC REQUIRES MANUFACTURE OF CERTAIN DRUGS EXCLUSIVELY FOR SPC USE AND PROHIBITS PRIVATE COMPANY FACTURING FIVE OF THESE DRUGS, SALES OF WHICH HAVE CONSTITUTED 23 PERCENT OF ITS MARKET IN SRI LANKA (PENICILLIN, VITAMIN C, DIABINESE, TETRACYCLINE AND PREDNISOLONE); SECOND, SPC ALLEGATION OF PFIZER RELUCTANCE TO MANUFACTURE SO-CALLED "SIMPLE" DRUGS (RIBOFLAVIN AND CALCIUM LACTATE CITED AS EXAMPLES); THIRD, PFIZER'S ALLEGED SLOW, HIGH-COST RESPONSE TO GSL REQUEST TO MANUFACTURE LARGE QUANTITIES TETRACYCLINE TO MEET LATE 1974 CHOLERA EPIDEMIC; FOURTH, PFIZER'S OBJECTIONS AND RESERVATIONS ON SPC PROPOSAL THAT PFIZER BEGIN SECOND SHIFT DEVOTED ENTIRELY TO SPC CENTRACTURAL PROJECTION.

4. NEIMETH THEN REVIEWED PFIZER'S POSITION ON EACH OF THESE POINTS IN DETAIL. ONE QUESTION OF FIVE PFIZER DRUGS AFFECTED BY "THIRTY-FOUR-DRUG PROGRAM" PFIZER WOULD BE WILLING TO PRODUCE ON "TOLLING" BASIS FOR SPC FOUR OF FIVE DRUGS EXCEPTION BEING DIABINESE WHICH IS SPECIALIZED PFIZER PRODUCT UPON WHICH IT WISHES PROTECT ITS NAME AND REPUTATION. UNDER TOLLING ARRANGENT, SPC WOULD BE ABLE IMPORT RAW MATERIALS FROM MUTUALLY ACCEPTABLE EXTERNAL SOURCES. PFIZER WOULD MANUFACTURE AGREED NUMBER OF DRUGS AND TURN THEM OVER TO SPC WHICH, IN TURN, WOULD SELL THEM UNDER GENERIC NAMES. WITH REGARD SIMPLE PRODUCTS, PFIZER WILLING TO UTILIZE CURRENT SURPLUS CAPACITY FOR THSE PRODUCTS SO LONG AS IT UNDERSTOOD PFIZER'S OWN PRODUCT LINE REQUIREMENTS SHOULD TAKE PRECEDENCE OVER MANUFACTURE OF PRODUCTS FOR SPC. CONCERNING TETRACYCLINE, PFIZER HAS TENDERED COMPETITIVELY LIMITED OFFICIAL USE

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AND IS PREPARED TO DEVOTE ENTIRE AVAILABLE SURPLUS CAPACITY TO TETRACYCLINE PRODUCTION AND TO INVESTIGATE INCREASING TETRACYCLINE CAPACITY IF SPC REQUESTS. RE SECOND SHIFT PROPOSAL. PFIZER IS WILLING TO CONSIDER IT BUT ONLY IF PRIOR AGREEMENT IS REACHED WITH SPC REGARDING ADDITIONAL PERSONNEL AND RESOURCES REQUIRED.

5. BASICALLY PFIZER IS CON-
CEDING SUBSTANTIAL CONTROL OVER ITS SURPLUS
CAPACITY AT LEAST IN NEAR FUTURE

IN ORDER TO MEET SPC'S DEMAND THAT IT
MANUFACTURE, UNDER CONTRACT, DRUGS UNDER "THIRTY-
FOUR-DRUGS PROGRAM" AND SIMPLE DRUGS. IN EACH
CASE, HOWEVER, PFIZER WANTS IT CLEARLY UNDERSTOOD
THAT AS DRUG LINES IN TRADITIONAL MARKETS EXPAND
AND AS NEW PFIZER PRODUCT ARE INTRODUCED INTO
SRI LANKA, PFIZER WILL WANT TO USE AN INCREASING
PERCENTAGE OF ITS PLANTS SINGLE SHIFT CAPACITY.
THIS IN TURN BRINGS UP SPC'S SECOND SHIFT PROPOSAL
BUT, AS PREVIOUSLY NOTED, PFIZER SEES CONSIDERABLE
MANAGEMENT, TECHNICAL, AND PERSONNEL PROBLEMS.

6. IN HIS PRESENTATION NEIMETH CONFIRMED PFIZER'S
STRONG DESIRE TO CONTINUE IN SRI LANKA AND TO AVOID
NATIONALIZATION. NEIMETH SAID PFIZER SEES MARKET
POTENTIAL IN SRI LANKA AND WISHES TO AVOID NATIONAL-
IZATION PRECEDENT AS MUCH AS POSSIBLE. CONCLUSION
IS PFIZER IS WILLING TO GO MORE THAN HALF WAY TO
MEET SPC'S DEMANDS.

7. PFIZER HAS NOW PROVIDED AMB WITH
EXTENSIVE WRITTEN EXPLANATION AND FIGURES SUP-
PORTING ITS POSITION. IN ADDITION, NEIMETH SHOWED
AMB DRAFT LETTER WHICH CLEARLY SETS OUT
PFIZER'S GENERAL POSITION ON DOING BUSINESS IN
SRI LANKA AND ITS PROPOSALS TO MEET EACH OF
SPC'S FOUR CRITICISMS. NEIMETH PROPOSES TO HAVE
THIS LETTER CHECKED BY LEGAL STAFF AT PFIZER HEAD-
QUARTERS AND THEN ADDRESS IT TO AMB FOR FURTHER
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REVIEW WITH BEHRENHAUSEN. BEHRENHAUSEN IN TURN
MIGHT THEN CONVEY MESSAGE TO BIBILE. AMB SAID
THAT, AS FOLLOW UP TO NEIMETH VISIT, HE ENVISAGES
FUTURE NEGOTIATIONS WILL BE CARRIED FORWARD BY
BEHRENHAUSEN WITH BIBILE. AMB ASSURED NEIMETH,
HOWEVER, THAT IF MAJOR PROBLEMS AROSE HE WOULD BE
PREPARED IN FUTURE, AS IN PAST, TO USE HIS GOOD
OFFICES AS REQUIRED.

8. COMMENT: NEIMETH AND EMBASSY AGREED BIBILE
IS BASICALLY AGAINST PFIZER, BUT EMBASSY ALSO
BELIEVES PFIZER WILL HAVE TO DEMONSTRATE MORE
FLEXIBILITY THAN IN PAST ON ITEMS IN DISPUTE.
BIBILE'S DETERMINATION TO PROCEED WITH INDIRECT
NATIONALIZATION OF PRIVATE PHARMACEUTICAL SECTOR

MAY NOT BE COMPLETELY UNDERSTOOD BY PRIME MINISTER.
HOWEVER, WE BELIEVE SHE IS VERY CONSCIOUS OF
IMPACT ANY IDENTIFIABLE NATIONALIZATION COULD HAVE
ON POTENTIAL INVESTMENT FROM OIL-PRODUCING AND
INDUSTRIALIZED COUNTRIES. IN FACT, SHE IS REPORTEDLY
UNDER CONSIDERABLE PRESSURE FROM SOME OF THOSE
COUNTRIES (FRG, KUWAIT, IRAN) TO PROMULGATE
SOME SPECIES OF FOREIGN
INVESTMENT
GUARANTEE/INCENTIVE LAW AS SINE QUA NON
FOR FURTHER SUBSTANTIAL ASSISTANCE. POLITICAL LEFTISTS,
ESPECIALLY TRADE UNIONS, HOWEVER, ARE STRONGLY IN
FAVOR OF NATIONALIZATION AND FOREIGN PHARMACEUTICAL
FIRMS ARE ESPECIALLY VULNERABLE TARGETS
OF ATTACK. GIVEN CONFIGURATION OF UNITED FRONT
COALITION, PRIME MINISTER CANNOT APPEAR TO BE
INSENSITIVE TO LEFTIST DEMANDS NOW. WE BELIEVE
PFIZER'S PROPOSED POSITION MAY LEAD TO REASONABLE UNDERSTANDING
WITH GSL, AT LEAST FOR NEXT 6 TO 12 MONTHS, BY WHICH
TIME UF MIGHT RPT MIGHT HAVE RESOLVED INTERNAL
CONTRADICTIONS ON ROLE OF PRIVATE SECTOR/FOREIGN
INVESTMENT IN SRI LANKA.
VAN HOLLEN

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